

**SUMMARY OF THE REGULAR MEETING OF THE
ARIZONA STATE RETIREMENT SYSTEM
INVESTMENT COMMITTEE**

**HELD ON
Friday, September 28, 2007
11:00 a.m., MST**

The Investment Committee (IC) of the Arizona State Retirement System (ASRS) met at 3300 N. Central Avenue, 14th Floor Conference Room, Phoenix, Arizona 85012. Mr. Lawrence Trachtenberg, Chair of the IC, called the meeting to order at 11:09 a.m., MST.

The meeting was teleconferenced to the ASRS Tucson office, 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona 85710.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Lawrence Trachtenberg, Chair
 Mr. Christopher Harris
 Mr. Thomas Connelly (arrived at 11:10 a.m.)
 Mr. James McLaughlin

A quorum was present for the purpose of conducting business.

2. Presentation, Discussion, and Appropriate Action Regarding the Status of the ASRS Real Estate and Private Equity Programs

Mr. Paul Matson, Director, and Mr. Gary R. Dokes, Chief Investment Officer (CIO), introduced the topic. Mr. Richard Henkel, Private Equity Portfolio Manager, presented an update on the status of the Private Equity Program since the last IC meeting. The Private Equity Committee (PEC) has been activated and has held seven meetings to date, accomplishing the following:

- Approved the Tactical Allocation Plan
- Approved Policies and Procedures
- Approved 16 managers for legal diligence
- Completed one Request for Proposal (RFP) - Consultant Selection
- A second RFP is at the Attorney General's office - To obtain Legal Counsel

Mr. Trachtenberg commented that PEC members have varying views and perspectives regarding the private equity market, but that they are all "on the same page." Mr. Harris asked if Mr.

Henkel was pleased with the responsiveness of the consultants. Mr. Henkel said that, in general, PE consultant performance has been good. He noted that the consultants tend to favor the larger end of the market; the ASRS likes to also explore opportunities in small to mid-size markets.

Mr. Dokes introduced the Real Estate (RE) Program status update. The RE policy allocation is 6%, and 4% has been committed so far. Mr. Eric Rovelli, Real Estate Portfolio Manager, noted that 4% is committed, and that 1.8% is funded. The ASRS started the Real Estate Program in 2005 and has since committed \$700 million to 13 managers. Since June 30, 2006, the Real Estate Strategic Plan was modified to change the composition to raise non-core to 80%. Domestic Real Estate Investment Trust (REIT) was added in 2005, and transition to global managers began.

Mr. Eric Rovelli stated that core private, core public, and non-core have performed well. He commented that an internal audit has been performed. He said that the rest of the year would be focused on:

- Internal administrative and manager oversight responsibilities
- International investments – the ASRS will look at Europe and Asia
- The ASRS will look at continuing to diversify strategies

3. Presentation and Discussion, and Appropriate Action Regarding the Status of the ASRS Global Tactical Asset Allocation (GTAA) Program

Mr. Dokes explained that the ASRS has employed a tactical asset allocation for over 20 years. Such tactical, active decisions are anticipated to provide incremental long-term return relative to the ASRS Total Fund Benchmark. In 2004, enhancements to the program were made, which migrated it from a domestic-only to a global GTAA mandate. The GTAA asset class policy target/range is 10% +/-2%. As of September 30, 2006, the total market value of GTAA assets was \$3.0 billion, or approximately 10.8% of the ASRS Total Fund.

Mr. Dokes reviewed past/current GTAA managers, noting that Bridgewater and Goldman Sachs Asset Management (GSAM) are very different from one another. Bridgewater is fundamental and GSAM is quantitative.

Mr. Thomas Connelly asked Mr. Dokes to explain why the ASRS has a GTAA program. Mr. Dokes explained that it provides the ASRS the ability to tactically shift assets between asset classes with the objective of adding incremental investment returns. A discussion of the history of the GTAA program ensued.

Ms. Sarah Wadsworth, Senior Portfolio Analyst, gave a postmortem on GTAA regarding Bridgewater's portfolio positions and view of the world.

Mr. Dokes said that the GTAA assets are held 5% with Bridgewater and 5% with BGI. Mr. Lawrence Trachtenberg commented that the climate is changing for GTAA. Mr. Michael Viteri,

Manager of Portfolio and Trading Strategies, said that Goldman Sachs' Global Alpha Fund had poor performance in August.

Mr. Dokes summarized that how the ASRS looks at GTAA (as well as private equity and real estate) may be different than how others do. Mr. Harris asked if we will supplement Bridgewater with another manager. Mr. Dokes replied in the affirmative, however, he said that the ASRS will consider several other funding permutations.

4. Presentation, Discussion, and Appropriate Action Regarding the Status of the Anticipated ASRS Investment Management Division (IMD) Initiatives

Mr. Dokes provided a brief update regarding the anticipated IMD initiatives to occur for the balance of 2007 (see attachment). Mr. Dokes pointed out that the 2007 Major Project Initiatives list excludes some of the unanticipated activities which occurred so far this year, such as GTAA program changes, asset allocation policy rebalancing, investment manager(s) roster modifications, LTD asset allocation policy modifications, and portfolio(s) transition management services. Current and future IMD activities will include: a Small-Cap Core/Growth equity manager search, GTAA search, consultant search, finalizing unitization of the Plan, and other projects.

5. Call to the Public

No members of the public requested to speak to the IC.

The meeting adjourned at 12:00 PM.

Respectfully submitted,

Lisa Hanneman, Secretary

Date

Gary R. Dokes, Chief Investment Officer Date

Investment Management Division
2007 Major Project Initiatives

Issue Area	Key Goals	Success Criteria
Investment Manager Performance Evaluation Framework	<ul style="list-style-type: none"> Engage discussions of key topics related to developing a comprehensive performance evaluation framework. Formulate a core set of principles for selecting manager performance benchmarks. 	<ul style="list-style-type: none"> Adopt and implement an ASRS Performance Evaluation Framework which codifies the decision-making process and performance expectations for the entire life cycle of an investment manager, i.e., hiring, retention and termination.
Real Estate Investment Program	<ul style="list-style-type: none"> Fund, if prudent, a minimum of six (6) real estate strategies. Enhance internal real estate market research capabilities. Develop relationships with other real estate professionals (plan sponsors, managers, etc.) 	<ul style="list-style-type: none"> Tactically implement six (6) real estate strategies, unless active decisions are made not to. Create a real estate research repository of internally and externally generated material. Develop a network of real estate professionals whom possess deal-flow, contacts, and market knowledge.
Private Equity Program	<ul style="list-style-type: none"> Retain ASRS private equity consultant. Develop ASRS Private Equity Program Plan document. Present and solicit IC Trustees input; receive approval from the Board. 	<ul style="list-style-type: none"> Select and hire ASRS private equity consultant. Tactically implement the ASRS Private Equity program. Develop ASRS private equity infrastructure; i.e., policies and procedures, internal staff expertise, private equity community contact base, etc.
Risk Budgeting	<ul style="list-style-type: none"> Engage discussions on the topic of Risk Budgeting; its impact on fund investment restructuring and complete analyses with any recommendations regarding risk budgeting and/or strategies. Evaluate risk budgeting software programs, while balancing the trade-off between functionality and cost. 	<ul style="list-style-type: none"> Session occurs, relevant issues discussed. As appropriate, determine a preferred methodology(s) to be used, topics and issues to be evaluated at subsequent risk budgeting sessions. Select and implement an appropriate risk budgeting system.
Comprehensive Investment Manager Analysis	<ul style="list-style-type: none"> Utilize holdings-based software (e.g. Barra) to analyze ASRS actively-managed investment portfolios. Analyze and measure the proportion of manager return due to the market (beta) and manager skill (alpha). 	<ul style="list-style-type: none"> Understand current portfolio positions in actively-managed investment portfolios (i.e. style or size bias). Determine the sources of investment returns (i.e. beta v. alpha) Identify the level and composition of active risk in actively-managed investment portfolios.
Value-Added Investment Strategies	<ul style="list-style-type: none"> Implement, if prudent, a minimum of two (2) tactical and/or strategic investment initiatives. 	<ul style="list-style-type: none"> Strategies researched and sponsored by IMD/Consultant, initiate meeting(s) with IMD staff, CIO and Director to evaluate proposal merits. Develop written communication material as required for the IC/Board. If approved, responsible for strategy implementation and/or oversight.
Investment Manager Selection, Retention, and Termination Approval Process	<ul style="list-style-type: none"> Discuss efficiency and oversight enhancements to ASRS' investment manager(s) selection, retention and termination approval process. 	<ul style="list-style-type: none"> Review and evaluate ASRS existing investment manager selection, retention, and termination decision-making process. Discuss existing parties' roles and responsibilities, oversight, documentation, etc.; review planned sponsor best practices. As appropriate, recommend to the Board for consideration modifications to ASRS investment manager program infrastructure.